

CODE OF CONDUCT

I. Definitions

“APS” means Arizona Public Service Company as it currently exists, as its name may be changed, or as any successor enterprise.

"Arm's Length Transaction" means a transaction between or among parties, each of whom acts in its own interest and where the final decision is not made by a single individual.

“Bill” means the billing invoice for Noncompetitive Services.

"Commission" means the Arizona Corporation Commission.

~~“Competitive Activities” means Competitive Electric Affiliates, Interim Competitive Activities, or Permitted Competitive Activities, as those terms are defined in this Code of Conduct.~~

~~“Competitive Electric Affiliate” means any business enterprise related to APS that is also an Electric Service Provider~~ those affiliates of APS engaged in Competitive Electric Services.

"Competitive Electric Services" means Competitive Retail Services and Competitive Wholesale Services.

"Competitive Procurement Process" means the process approved by the Commission and required by Decision No. 65154 by which APS will acquire power that cannot be produced from its own existing assets.

"Competitive Retail Activities" means Competitive Retail Services or Permitted Competitive Retail Activities, as those terms are defined in this Code of Conduct.

"Competitive Retail Affiliate" means any affiliate of APS that is engaged in Competitive Retail Services and is an Electric Service Provider.

“Competitive **Retail** Services” means all aspects of retail electric services described in A.A.C. R14-2-1601(7).

"Competitive Wholesale Services" means the provision of energy products or services to the wholesale market.

“**Confidential Customer Information**” means any non-public customer-specific information obtained by APS as a result of providing Noncompetitive Services or Permitted Competitive Retail Activities. Confidential Customer Information also includes non-public customer-specific information obtained by APS from customers of

special districts and public power entities on behalf of such special districts and public power entities.

“Confidential Information” means Confidential Customer Information as that term is defined in this Code of Conduct and any other nonpublic information regarding Competitive Electric Services obtained solely through the provision of Noncompetitive Services or in the conduct of the Competitive Procurement Process; provided, however, Confidential Information shall not include (i) information that is otherwise available to non-affiliate third parties or (ii) information necessary for a Competitive Electric Affiliate to provide or receive Shared Services~~that would provide a competitive advantage to a Competitive Electric Affiliate.~~

“Distribution Service” means those services described in A.A.C. R14-2-1601(14).

“Electric Competition Rules” means A.A.C. R14-2-1601 to -1617 as are lawfully in effect as of the date of approval of this Code of Conduct by the Commission~~including all future amendments and modifications.~~

“Electric Service Provider” means an entity as described in A.A.C. R14-2-1601(15).

“Extraordinary Circumstance” means any situation that requires APS to act in a manner contrary to this Code of Conduct to protect public interest or safety. Examples include the following: ~~(ia)~~ an abnormal system condition requiring manual or automatic action to maintain system frequency, to prevent loss of firm load, to prevent equipment damage, or to prevent disconnection of system elements that could adversely affect reliability or safety; ~~(iib)~~ a fuel shortage requiring departure from normal operating procedures to minimize the use of a particular fuel; ~~(iie)~~ a condition that requires implementation of emergency procedures as defined in the AISA operating protocols, the protocols of any regional transmission or similar organization, or the Western Electric Coordinating Council (“WECC”) or protocols of any similar organizations successor; or ~~(ivd)~~ any applicable law, regulation, court order, tariff, or directive of a regulatory agency, regional transmission or similar organization or the WECC or any similar organization ~~directive~~ requiring APS to act in a manner contrary to the Code of Conduct.

“FERC” means the Federal Energy Regulatory Commission.

~~**“Interim Competitive Activities”** means any Competitive Services, exclusive of those set forth in A.A.C. R14-2-16-15(B), that APS may lawfully provide until December 31, 2002.~~

“Noncompetitive Services” means those services described in A.A.C. R14-2-1601(29).

“Permitted Competitive Retail Activities” means those Competitive Retail Services that APS may provide pursuant to A.A.C. R14-2-1615(B), except for any service provided as part of Standard Offer Service.

"Pinnacle West" means Pinnacle West Capital Corporation as it currently exists, as its name may change, or as any successor enterprise.

"Policies and Procedures" or "P&Ps" means those policies and procedures developed by APS to implement this Code of Conduct.

~~**"Same Terms"** means that APS shall provide Noncompetitive Services to its Competitive Activities and Third Parties on the same terms and conditions.~~

"Shared Services" means those support services provided by Pinnacle West or any of its affiliates, including but not limited to: human resources; accounting; tax; insurance; risk management; energy risk management; audit services; contract management; information and communication technology; communications; environmental, health and safety; regulatory services; system dispatch; transportation; security; facilities; shareholder services; law and business practices; public affairs and enterprise finance.

"Standard Offer Service" means the bundled provision of retail electric service as described in A.A.C. R14-2-1601(38).

~~**"Third Party"** means any Electric Service Provider or other-market participants other than a Competitive Retail Affiliate that may lawfully provide Competitive Retail Services to retail customers that do not fall within the definition of APS or Competitive Activities, as those terms are defined in this Code of Conduct.~~

II. Applicability of Code of Conduct

The Code of Conduct applies to the conduct of APS ~~in its interactions with~~ its Competitive Electric Affiliates relating to Competitive Electric Services~~Activities~~, unless an Extraordinary Circumstance excuses compliance.

All employees and authorized agents of APS in their interactions with APS' Competitive Electric Affiliates shall comply with this Code of Conduct. Failure to comply with this Code of Conduct will subject the employee to disciplinary actions as described in Section XIII.C of this Code of Conduct.

III. Treatment of Similarly Situated Persons

- A. APS shall apply its retail tariffs in the same manner to similarly situated entities. If a retail tariff provision allows for discretion in its application, APS shall apply that provision in a non-discriminatory manner between its Competitive Electric Affiliates~~Activities~~ and ~~all non-affiliate~~ Third Parties and their respective customers.

- B. APS shall process all similar requests for Noncompetitive Services and for Permitted Competitive Retail Activities, if applicable, in the same manner and within the same time period.
- C. APS shall ~~offer~~provide access to Distribution Service-specific information (including information about available distribution capability, transmission access, and curtailments) to its Competitive Retail~~Electric~~ Affiliates and Third Parties concurrently and under the same material terms and conditions.
- D. APS shall act in accordance with the Competitive Procurement Process and will not give preferential treatment to its Competitive Electric Affiliates in such process.

IV. Use of Confidential Customer Information

- A. APS shall not provide Confidential Customer Information to any Competitive Electric Affiliate or ~~other Third p~~Party engaged in Competitive Electric Services without the customer's written authorization. Such information may be provided only to the extent specifically authorized.
- B. APS shall inform any Competitive Electric Affiliate or ~~other Third p~~Party engaged in Competitive Electric Services seeking Confidential Customer Information that such information may be released only after APS receives the customer's written authorization.
- C. APS shall not provide Confidential Information to a Competitive Electric Affiliate, except as provided in Section IV.A of this Code of Conduct with respect to Customer Confidential Information.
- D. Except as required by Section IX.B of this Code of Conduct, nothing herein or in the P&Ps shall be construed to require any Competitive Electric Affiliate to disclose competitively sensitive or other legally protected information.

V. Use of the Bill and Promotions within the Bill Envelope

- A. If APS decides to include any amounts due for its Competitive Retail Activities within the Bill, APS shall develop a section in its P&Ps to ensure equal access to billing services for any party engaged in Competitive Retail Services~~Third Parties~~ which shall provide that APS will offer to include in its Bill the amounts due for Competitive Retail Services to any Third Party on the ~~s~~Same material tTerms and conditions, upon request.
- B. This provision shall not prevent ~~a~~APS' Competitive Retail Affiliate~~Activities~~ or any Third Party from including amounts due for Noncompetitive Services in its own consolidated billing statement, as long as the customer receiving such

consolidated billing statement has authorized APS' Competitive Retail AffiliateActivities or a Third Party, as applicable, to act as its agent for such purpose.

- C. If APS chooses to insert any advertising or promotional materials for its Competitive Retail AffiliateActivities or for any Third Party's Competitive Retail Services into the envelope for the Bill or to print such advertisements on the Bill or billing envelope, APS shall develop a section in its P&Ps to ensure equal access to advertising space in or on the Bill or billing envelope.

VI. Customer Telephone Calls

Telephone numbers and websites used by APS for provision of Noncompetitive Services shall be different from those used by its Competitive Electric Affiliates.

VII. Prohibition on Suggestion of Utility Advantage

- A. APS shall not state in any advertising, promotional materials, or sales efforts that a consumer who purchases services from APS' Competitive Electric AffiliatesActivities will receive preferential treatment in the provision of Noncompetitive Services or that any other advantage regarding the provision of Noncompetitive Services will accrue to that consumer.
- B. The name or logo of APS as a utility distribution company shall not be used in promotional advertising material circulated by a Competitive Electric Affiliate.
- C. APS personnel shall not specify to any retail customer or potential retail customer a preference for any Competitive Electric Service provided by APS' Competitive Electric AffiliatesActivities over those of any Third Party.
- D. APS personnel shall not specify to any retail customer or potential retail customer a preference for any Competitive Electric Service provided by anya Third pParty over any Competitive Electric Service provided by any other Third pParty.
- E. APS personnel providing Noncompetitive Services shall either inform customers who inquire about Competitive Retail Services that a list of Electric Service Providers is available at no charge from the Arizona Corporation-Commission on its website or by telephone, and upon request shall provide the customers with the appropriate Arizona Corporation-Commission website address and telephone number, or may provide such customers with a copy of the current Arizona Corporation-Commission list of such providers.
- F. APS shall not require the that a consumer purchase any Competitive Electric Service from APS' Competitive Electric AffiliatesActivities as a condition to providing Noncompetitive Services.

- G. ~~Prior to the divestiture of APS generation pursuant to Arizona Corporation Commission Decision No. 61973 (October 6, 1999), APS generation service shall not be sold on a discounted basis to Standard Offer Service customers without the express authorizationpermission of the ~~Arizona Corporation~~Commission.~~

~~VIII. Accounting for Costs~~

- A. ~~APS shall not subsidize its Competitive Activities through any rates or charges for Noncompetitive Services. However, this provision does not require APS to charge more than its authorized tariff rate for any Noncompetitive Service.~~
- B. ~~All transactions between APS and its Competitive Electric Affiliate shall be accounted for in accordance with APS' P&P, which shall be developed to describe the cost allocation of all transactions pertaining to APS and its Competitive Electric Affiliates in a manner that ensures that there is no subsidization of the Competitive Electric Affiliate by the Noncompetitive Services of APS. Any material violation of the P&P or other activity which would constitute engagement in unlawful anticompetitive behavior shall constitute a violation of this Code of Conduct.~~
- C. ~~The initial P&P shall be submitted to the Commission for review and approval. If no action is taken by the Commission or its designee within 60 days of the filing, the P&P shall be deemed approved. Beginning one year from the date of approval of the P&P, APS shall notify the Commission by filing annual updates to the P&P, including any and all Commission approved modifications as specified in subsection D, to allocation methods and changes in direct and indirect allocators used in the P&P. If no action is taken by the Commission or its designee within 30 days of its filing, the update shall be deemed approved.~~
- D. ~~APS may not make and implement any material change to the P&P without seeking the prior approval of the Commission or its designee. Once notification is made by APS of an intended modification, if no action is taken by the Commission or its designee within 30 days of its filing, the modification shall be deemed approved.~~

VIIIX. Reporting Requirements

APS shall submit the following information to the Commission on an annual basis each April 15th, beginning on April 15, 2004:

- A. A list of all Extraordinary Circumstances excusing APS' compliance with this Code of Conduct and a report explaining the nature, cause, and duration of each incident.

- B. A report ~~summarizing~~detailing the ~~charges~~costs associated with all nontariffed transactions between APS and its Competitive Electric Affiliates, with the associated ~~charges~~costs reported separately for each Competitive Electric Affiliate~~business activity~~ and for each category of service~~transaction~~.
- C. A report detailing (i) how many non-Standard Offer Service customers were provided metering services or meter reading services ~~pursuant to R14-2-1615.B~~ and (ii) how many Electric Service Providers received consolidated billing services from APS, both pursuant to R14-2-1615-(B).
- D. A report identifying all transfers between APS and its Competitive Electric Affiliates of employees at the manager level or above.
- E. All information submitted pursuant to this Section VIII of this Code of Conduct shall be treated in accordance with A.R.S. § 40-203.

IXX. Separation Requirements

- A. APS ~~and its Competitive Activities~~ shall be a separate corporate entity from its Competitive Electric Affiliates to the extent required by A.A.C. R14-2-1615 and Decision No. 61973 (October 6, 1999). Unless otherwise permitted herein, APS shall, to the extent practical, operate separately from its Competitive Electric Affiliates. Sharing of equipment and facilities shall be permitted only in accordance with the functional separation requirements set forth in the P&Ps.
- ~~B. APS shall not provide Interim Competitive Activities.~~
- BC. APS ~~and its Competitive Electric Affiliates~~ shall keep separate books and records, and APS shall keep accounting records that set forth appropriate cost allocations between APS' Noncompetitive Services, and its Competitive Electric Affiliates. All APS records shall be kept in accordance with the FERC Uniform System of Accounts and Generally Accepted Accounting Principles. As a precondition to transacting any business with APS, bBooks and records of APS' Competitive Electric Affiliates will~~must~~ be made available for inspection by the Arizona Corporation Commission in accordance with A.A.C. R14-2-804.A, to the extent reasonably necessary to determine compliance with this Code of Conduct.
- CD. APS and its Competitive Electric Affiliates shall not jointly employ the same employees; provided, however, that APS and its Competitive Electric Affiliates may utilize~~have~~ common officers and directors for corporate support, oversight, and governance, but APS officers directly responsible for operational matters shall not serve as officers or directors of a Competitive Electric Affiliate. Common officers and directors shall not be utilized to circumvent the prohibition on providing Confidential Information to a Competitive Electric Affiliate, nor shall such common officers or directors be permitted to participate in the

~~Competitive Procurement Process obtained through the provision of Noncompetitive Service to provide a competitive advantage to a Competitive Electric Affiliate.~~ Contracts for services accounted for in conformance with Section XI of this Code of Conduct shall not constitute prohibited joint employment if measures are taken to prevent the transfer of Confidential Information between APS and a Competitive Electric Affiliate.

~~DE. This Code of Conduct shall not prohibit APS and its Competitive Electric Affiliates may utilize from purchasing Shared Services from Pinnacle West Capital Corporation in accordance with Section X of this Code of Conduct and the P&Ps; provided, however, that APS, Pinnacle West, and any Competitive Electric Affiliate shall take appropriate measures to prevent access to the transfer of Confidential Information between APS and by its Competitive Electric Affiliates through such Shared Services via Pinnacle West.~~

XXI. Transfers of Goods and Services

~~A. All transactions between APS and its Competitive Electric Affiliates shall be Arm's Length Transactions, except as provided in this Section X of the Code of Conduct and in the associated provisions of the P&Ps.~~

~~B. APS shall not subsidize its Competitive Electric Affiliates through any rates or charges for Noncompetitive Services. APS shall not, however, be required to charge its Competitive Electric Affiliates more than its authorized tariff rate for any Noncompetitive Service.~~

~~C. Shared Services may be provided by APS to its Competitive Electric Affiliates, and such services shall be accounted for in accordance with the P&Ps, which shall describe the accounting methodology for such services and transactions in a manner that ensures there is no subsidization of the Competitive Electric Affiliates by APS.~~

~~D. APS may acquire Shared Services from Pinnacle West and such services shall be accounted for in accordance with the P&Ps, which shall describe the accounting methodology for such services and transactions in a manner that ensures there is no subsidization of the Competitive Electric Affiliates by APS.~~

~~EA. Any APS' tariffed goods and services shall be provided by APS or its Competitive Electric Affiliates that are subject to a filed tariff shall be provided Third Parties and its Competitive Electric Affiliates at the rates and under the terms and conditions set forth in the tariff, unless an exception is permitted by the governing body with jurisdiction over such tariff.~~

~~FB. If APS sells to its Competitive Electric Affiliates nontariffed retail goods and services that were developed by APS for sale in the market to its Competitive~~

~~Electric Affiliates~~, the transfer price shall be the higher of cost or fair market value. ~~Such goods and services shall be provided to APS' Competitive Electric Affiliates and Third Parties on a non-discriminatory basis.~~

~~C. All other transfers of nontariffed goods and services from APS to APS' Competitive Electric Affiliates shall be at the higher of fully allocated cost or fair market value.~~

~~G.D.~~ If APS' Competitive Electric Affiliates sell to APS nontariffed~~transfer any retail~~ goods and ~~services to APS that were developed for sale by the Competitive Electric Affiliate in the market,~~ the transfer price shall be at a price not to exceed the fair market value.

~~H.E.~~ Sales of Competitive Wholesale Services by and among APS and its~~All other transfers of goods and services from APS' Competitive Electric Affiliates to APS~~ shall be made in accordance with FERC and other applicable requirements~~at the lower of fully allocated cost or fair market value.~~

XIXH. Joint Marketing

APS and its Competitive ~~Retail~~Electric Affiliates shall not jointly market their respective retail services.

XII. Financing Arrangements

APS shall comply with the applicable provisions of A.R.S. §§ 40-285; 40-301, et seq.; and A.A.C. R14-2-804, with respect to any financing arrangement between it and its Competitive Electric Affiliates.

XIII. Dissemination, Education, and Compliance

A. Copies of this Code of Conduct shall be provided to employees of APS and its Competitive Electric Affiliates and those authorized agents of APS and its Competitive Electric Affiliates that are likely to be engaged in activities subject to the Code of Conduct. A copy of the Code of Conduct shall be maintained on Pinnacle West Capital Corporation's intranet.

B. Training on the provisions of the Code of Conduct and its implementation shall be provided to the employees of APS and its Competitive Electric Affiliates~~employees, as well as to authorized agents~~ that are likely to be engaged in activities subject to the Code of Conduct.

C. Compliance with the Code of Conduct is mandatory. ~~The An APS employee's or agent's~~ failure or refusal of an employee of APS to abide by or to act according to the Code of Conduct or the P&Ps~~such standards~~ may subject the employee ~~or~~

~~agent~~ to disciplinary action, up to and including discharge from employment ~~or termination of the agent's relationship with APS.~~

D. Any activity that would constitute engagement in unlawful anticompetitive behavior shall constitute a violation of this Code of Conduct.

ED. Questions regarding this Code of Conduct should be directed to Pinnacle West ~~Capital Corporation's~~ Business Practices Department. Compliance with this Code of Conduct shall be administered as part of Pinnacle West ~~Capital Corporation's~~ Business Practices Program.

XIV. Procedure s to Modify the Code of Conduct or P&Ps

A. APS or any other interested party, including Commission Staff may request modifications to the Code of Conduct by filing an application with the Commission. The application shall set forth the proposed modifications and the reasons supporting them.

B. APS shall notify the Commission of any revisions required to be made to the P&Ps to address modifications to allocation methods or the direct and indirect allocators used in the P&Ps by filing an update to the P&Ps with the Commission. If no action is taken by the Commission or its designee within 30 days of its filing, the update shall be deemed approved.

C. APS may not make and implement any material change to the P&Ps without seeking the prior approval of the Commission or its designee. Once notification is made by APS of an intended modification, if no action is taken by the Commission or its designee within 30 days of its filing, the modification shall be deemed approved.

XV. Dispute Resolution

To the extent permitted by law, complaints concerning violations of this Code of Conduct shall be processed under the procedures established in A.A.C. R14-2-212.